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Message Text

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C O N F I D E N T I A L STATE 159228

E.O. 11652: GDS

TAGS:

SUBJECT: GUYANA STAND-BY AGREEMENT WITH IMF

1. AFTER ALMOST A YEAR OF NEGOTIATIONS FOR A FUND CREDIT ARRANGEMENT, THE GOVERNMENT OF GUYANA AND THE IMF HAVE RECENTLY AGREED TO A ONE-YEAR STAND-BY, EQUIVALENT TO SDR 6.25 MILLION. FULL UTILIZATION OF THIS SECOND CREDIT TRANCHE WILL RAISE THE FUND'S HOLDING OF GUYANA DOLLARS TO 194 PERCENT OF ITS QUOTA OF SDR 25 MILLION. THOUGH UNABLE TO INSTITUTE AN EFF PROGRAM THIS YEAR, THE GOG HOPES THAT THE RECENTLY NEGOTIATED STAND-BY ARRANGEMENT WILL HAVE TWO EFFECTS: (1) IMPROVE GUYANA'S PRECARIOUS
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FINANCIAL IMAGE AND (2) GIVE THE GO AHEAD FOR THE SUB-GROUP ON GUYANA WHICH WILL CONVENE FOR THE FIRST TIME ON JUNE 22 AT THE MEETING OF THE CARIBBEAN CONSULT-ATIVE GROUP ON ECONOMIC DEVELOPMENT.

2. THE FINANCIAL PROGRAM, WHICH WILL SERVE AS THE BASIS FOR THE CURRENT STAND-BY ARRANGEMENT, ESTABLISHES

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THE FOLLOWING PERFORMANCE CRITERIA:

A. CEILINGS HAVE BEEN SET ON THE LEVEL OF NET DOMESTIC ASSETS OF THE BANK OF GUYANA.

B. NET CREDIT EXTENDED BY THE BANKINGSYSTEM TO THE PUBLIC SECTOR WILL BE TARGETED AT SPECIFIC LEVELS.

C. COMMERCIAL BANK INTEREST RATES WILL BE RAISED BY AT LEAST 2 PERCENTAGE POINTS FOR LENDING RATES AND 3 PERCENTAGE POINTS FOR DEPOSIT RATES.

D. TARGETS HAVE BEEN SET TO REDUCE AND EVENTUALLY ELIMINATE COMMERCIAL ARREARAGES (ARREARAGES OUTSTANDING AT THE END OF 1977 WERE APPROXIMATELY $40 MILLION).

E. GROWTH IN EXTERNAL PUBLIC DEBT, WITH AN ORIGINAL MATURITY STRUCTURE OF 1 TO 12 YEARS, WILL BE LIMITED.

F. THE EXISTING PROHIBITION ON TRANSFERS ABROAD OF FUNDS ARISING FROM DEPRECIATION ALLOWANCES BY FOREIGN BASED COMPANIES WILL BE RESCINDED PRIOR TO OCTOBER 31, 1978.

3. IN ADDITION TO AUSTERITY MEASURES INSTITUTED EARLIER THIS YEAR AND SUPPORTIVE OF ITS OVERALL STABILIZATION
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PROGRAM, THE GOG WILL PROCEED WITH THE ADOPTION AND IMPLEMENTATION OF NEW SALES TAXES, AN INCREASED SOCIAL SECURITY CONTRIBUTION, A NEW DEPOSIT SCHEME AGAINST EXTERNAL ARREARS AND INCREASED DOMESTIC SUGAR PRICES. ALONG WITH THESE INTERNAL ADJUSTMENTS, THE GOG'S ADHERENCE TO THE STABILIZATION PROGRAM AND PERFORMANCE CRITERIA WILL BE CLOSELY LINKED TO AN IMPROVEMENT IN THE GOG'S TERMS OF TRADE, AND ITS ABILITY TO SECURE PROJECTED LEVELS OF EXTERNAL DEVELOPMENT FINANCING WHICH IN TURN WILL INFLUENCE THE INVESTMENT PROGRAM DETERMINED BY THESE FUNDS.

4. THE FUND HAS INDICATED THAT IT ANTICIPATES RECEIVING A REQUEST FROM THE GOG LATER THIS YEAR FOR A DRAWING OF ITS REMAINING COMPENSATORY FINANCING CREDIT WORTH SDR 8.75 MILLION. ACCORDINGLY, THIS WOULD BRING TOTAL FUND HOLDINGS OF GUYANA DOLLARS TO SDR 52.25 MILLION OR 209 PERCENT OF ITS QUOTA. FURTHERMORE, THE FUND STAFF HAS INDICATED THAT IF THE GOG SATISFACTORILY ADHERES TO PERFORMANCE CRITERIA UNDER THE CURRENT STAND-BY ARRANGEMENT, IT MAY SUBSEQUENTLY BE PREPARED TO DISCUSS A REQUEST FOR AN EFF PROGRAM IN 1979. VANCE

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